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TRADE AND DEVELOPMENT BOARD

Ninth Special Session (Third Part)

SUMMARY RECORD OF THE 490TH MEETING

held at the Palais des Nations, Geneva,
on Tuesday, 7 March 1978, at 3.15 p.m.

President: Mr. ATHULATHMUDALI (Sri Lanka)

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INSTITUTIONAL MATTERS (agenda item 5) (continued)

(b) ANNOUNCEMENT OF ANY CHANGES IN THE MEMBERSHIP OF THE BOARD (continued)

1. The PRESIDENT said that the Republic of Guinea had notified the Secretary-General of UNCTAD of its wish to become a member of the Board. In the absence of objection, he would consider that Guinea had become a member of the Board.

2. It was so decided.

PURSUANT TO CONFERENCE RESOLUTION 94 (IV), REVIEW OF ACTIONS CONCERNING THE INDEBTEDNESS OF DEVELOPING COUNTRIES, IN PARTICULAR, THE DISCERNING OF FEATURES WHICH COULD PROVIDE GUIDANCE IN OPERATIONS RELATING TO DEBT PROBLEMS (agenda item 2) (continued) (TD/B/685 and Add.1-5, TD/B/690, TD/B/695; TD/AC.2/9; TD/B/980/30)

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3. Mr. HUSSEL (France), speaking on behalf of Group B, said that the countries members of that Group attached great importance to international co-operation in the field of indebtedness and development of developing countries. They reaffirmed their determination to continue the dialogue on the question of indebtedness and on the financial and development problems of the least developed countries.

4. The fourth session of the Conference had marked a first and important stage in the discussions and resolution 94 (IV) had provided an outline for work and reflection that had been first put to the test at the Conference on International Economic Co-operation where the question had been discussed at length. Even though no agreement had been reached, all the participants had considered that the work on the problem of indebtedness constituted a useful basis for work to be pursued elsewhere.

5. Further work had been done in UNCTAD, first by the Intergovernmental Group of Experts and later during the first two parts of the ninth special session of the Board.

6. The common position of the Group B countries at the conclusion of that preparatory phase could be summarized in the following way. The indebtedness problem of the developing countries was neither generalized nor unmanageable and the international system had so far reacted positively in order to alleviate serious problems of indebtedness and to find specific solutions in the case of individual countries faced with difficulties in servicing their debt. In that

connexion, the Group B countries recognized the pertinence and value of the proposals made by the European Economic Community and the United States of America which they believed deserved serious consideration. The real problem with which a number of developing countries were confronted was a problem of resource transfer and not a general problem of indebtedness. He pointed out that the Special Action Programme announced at the Conference on International Economic Co-operation formed part of the efforts of the Group B countries to assist certain low-income countries. As for the problems of the least developed countries, they were of a more general development nature: those countries had a special need for resource transfer in appropriate forms and on highly favourable terms.

9. To sum up, both creditors and debtors had an interest in preventing and resolving in an appropriate manner developing countries' problems of indebtedness. That was why the Group B countries wished to pursue multilateral co-operation with a view to acting rapidly to come to the assistance of developing countries faced with problems of indebtedness, and to contributing constructively to the development of international co-operation in that field.

8. It was in that open and constructive spirit that Group B approached the meeting of the Board at ministerial level, which they considered an important stage in international co-operation and which would represent a further step towards mutual understanding on the questions of indebtedness and development.

7. Mr. BOHNY (Switzerland) said that the meeting of the Board at ministerial level formed part of the overall North-South dialogue on the whole question of international economic relations and their interaction.

10. The question of indebtedness had already been the subject of extensive preparatory work both in UNCTAD and at the Paris Conference on International Economic Co-operation. That work had shown that indebtedness was not in itself an indication of difficulties. In fact the determining factor was the relation between the servicing of the debt and the economic characteristics of the particular county concerned, as well as its sensitiveness to the country to changes in the world economic situation.

11. That was why the problem of indebtedness could take so many different forms in different countries, and why there were so many different measures available to the international community for dealing with the problem. Some of those measures were direct and applicable to particular cases, others were concerned with the general context of international economic co-operation in which each country was seeking to solve its problems.

12. Among the latter were such particularly important measures as stabilization of commodity markets; pursuit of liberal trade policies, which was more necessary than ever; maintenance of normal access to capital markets, implementation of investment programmes conducive to economic and social development and strengthening of the activities of the international financing institutions.

13. Such measures, as well as all those serving the essential purpose of strengthening international monetary and financial co-operation, should enable developing countries to improve their economic and financial situation and thus help them to avoid indebtedness crises.

27. Mr. LAGUILLIER (International Chamber of Commerce), speaking at the invitation of the President, said that ICC, most of whose national committees were in the developing countries, had recently studied the problems created by the increase in the external debt of those countries and in the burden it represented for them.

28. In a statement adopted on 6 December 1977, the Commission on International Monetary Relations of ICC stressed the need for the developed countries, particularly those with surpluses, and the agencies for aid to development to lend their assistance. As the representative of Ghana, speaking on behalf of the Group of 77, had pointed out at the second part of the ninth special session of the Board, the sharp increase in borrowings on the private capital market to which some developing countries had been forced to have recourse clearly showed how far official aid for dealing with balance-of-payments deficits fell short of the needs. The international banking system had played a vital role as intermediary in the external financing of some developing countries, not only by providing loans, but also by seeking the most suitable methods of financing. But the banks had to pay interest on the deposits of their clients and they could not lend at rates lower than those at which they borrowed. That was why ICC's Commission on International Monetary Relations considered it essential that the balance-of-payments deficits of developing countries, and particularly those of the least developed countries should be financed by means other than recourse to the international markets.

29. In the opinion of ICC, therefore, deficit countries should make greater use of their special drawing right facilities in the International Monetary Fund (IMF) instead of having recourse to private banks, which should not become a substitute for the Fund. The banks would, of course, continue to play an important role in providing finance to developing countries, but not at the same rate as in the last three years, for otherwise the debt service burden would become unmanageable. They would also continue to bear the risk of the loans they granted, hoping, however, that the borrowing countries would manage their debt in the best possible manner, not only in terms of balanced finances, but also in terms of the burden which each country's debt signified for it and of the country's ability to bear it. In the case of contractual debts, the international community, including the banks, had always been able to come to some arrangement when debtor countries found it impossible to meet their obligations.

30. If, as had been proposed, the official debt of some developing countries was to be completely and automatically cancelled, that would set a precedent which could weaken the confidence between lender and borrower that was essential. Such a step, which would seem to place in question the sense of responsibility in financial management shown by the large majority of developing countries, might cause the banks to doubt the creditworthiness of those countries, and therefore might make them think twice before granting them credit. Countries which, because of the level and structure of their debt and the way in which they managed it, seemed qualified for access to the capital market might be denied such access. Such a measure might also prove a deterrent to international private investment flows to countries in great need. Finally, there was the possibility that such a measure, which would be equivalent to a single and definitive transfer

of very substantial resources, would limit the development of official aid on highly concessional terms, including that which was channelled through organizations such as IDA and the regional development banks.

31. Such a decision would therefore prove harmful to the developing countries themselves. TDB was convinced of the need for a massive increase in official aid, which, in the case of the poorest countries, should be on highly concessional terms. The development effort should be a joint one and the main responsibility lay with the developed countries, particularly those with surpluses. That responsibility, like that of the developing countries, should not be shirked.

32. Mr. HUSSEINIEN (Austria) said that the Board was dealing with extremely important issues which had a direct bearing on the interdependence of the economic development of both developing and developed countries. Since the last session of the Conference, the debt problem had been discussed in various international forums. While it was only one of the elements to limit economic growth of the developing countries, it should be borne in mind that heavy debt service payments had an adverse effect on the economic performance of debtor countries. The poorest developing countries frequently had a limited export potential and limited access to international capital markets. In view of their limited ability to obtain foreign exchange and to meet their debt service obligations, the international community must, with some urgency, make a determined effort to improve the situation.

33. In the long run, the ability of that group of countries to meet their debt service obligations would depend very much on their overall economic performance. That performance could be improved by debt cancellation, by increasing the transfer of resources and by providing assistance for the implementation of economic development programmes. Within an overall multilateral framework, the specific requirements of the individual countries should be considered and a flexible approach should be adopted. Debt relief action should meet the particular needs of each country. Therefore, a case-by-case approach should be followed in the context of the Paris International Debt Tending.

34. The proposal made by the United States and the European Economic Community at the Conference on International Economic Co-operation might provide guidance for future operations. Nevertheless, the emphasis should not be solely on debt relief and it would be preferable to envisage a mix of different measures not only when a debt crisis was imminent, but also when dealing with long-term debt and balance-of-payments problems. In that context, consideration should be given to debt reorganization measures, outright cancellation of debts, and additional assistance in the form of grants or concessional government loans, as well as to measures to private lending on concessional terms officially guaranteed.

35. In order to meet the specific needs of debtor countries and the possibilities of creditor countries for remedial action, the cancellation of government loans was only one method by which the economic position of the developing countries might be improved. Additional concessional official loans might also be envisaged for infrastructural improvement or for the execution of projects which had a direct positive impact on exports or stimulated import substitution. The measures taken by Governments could also be supplemented by private credits on concessional terms officially guaranteed for projects with self-repayment potential.

36. A combination of some or all of those measures could rapidly increase the creditworthiness of developing countries and contribute to the acceleration of their economic growth. Priorities would have to be established having regard to the relative urgency of the corrective measures to be taken and the special needs of the country concerned.

37. Austria was already taking part in the rescheduling of outstanding debts and the Government was considering, subject to the passing of the necessary legislation by Parliament, the introduction of additional measures concerning official loans to the poorest developing countries.

38. Mr. HOLLEY (Canada) said that the head of the Canadian delegation had acknowledged, at the fourth session of the Conference, the importance of UNCTAD and its contribution to international economic co-operation for the benefit of all countries and peoples. Since 1976, the importance of the organization had continued to grow and the events which had taken place at the Paris Conference on International Economic Co-operation and subsequently at Geneva had permanently altered the way in which international economic problems were perceived and the way of coping with them. UNCTAD had become one of the principal institutions in which solutions to economic problems of global concern were worked out.

39. One of those problems was the economic state of indebtedness of the developing countries. The fact that the problem was seen in different ways by different countries had not diminished the urgency of the issue nor, unfortunately, made it easier to find solutions. The interrelationship of indebtedness or, more precisely, debt management, and the international payments system and the economies of all countries, both developed and developing, in international capital markets further complicated the task. However, over the past two years, in particular, the efforts of the international community to grasp and find solutions to the problem had not been completely in vain. There was now a better appreciation of the ways in which indebtedness could affect the economic environment of the developing countries, and the latter seemed to have a clearer concept of the problems facing the developed nations and their position as creditors. It seemed that those concepts and positions, although still quite divergent, could be reconciled.

40. It had also been learned that the most promising way to make progress was through a sustained dialogue based on recognition of the need to increase the levels of concessional resource transfers to those countries in greatest need, for example, the least developed countries. The Canadian delegation believed that the stage of analysis and assessment had been passed, that polemic and rhetoric should be abandoned and that practical solutions to those very specific problems must be found.

41. The growth of the global balance-of-payments deficit of the non-oil-exporting developing countries emphasized the importance of the problem. Those deficits, although large, were not in themselves critical provided it was recognized where and when accommodation might be needed to prevent economic disruption in a particular country. Consequently the Board should not confine itself to an examination of the current debt problems of developing countries, but should attempt to find a way of anticipating and defining future problems and to agree on the measures needed to alleviate them.

43. Canada attached great importance to the provision of development assistance on the softest possible terms to the poorest developing countries. It therefore considered that development assistance loans should not result in the inability of the recipients to meet their external commitments.

44. It did not regard debt relief as a normal transfer mechanism. However, in view of the very great disparity in repayment capacities and, therefore, in view of the critical need of those countries defined by the United Nations as least developed, Canada had decided, at the Conference on International Economic Co-operation, to cancel the repayment of outstanding ODA debts owed by those countries. It was pleased to note that it was not alone in taking such action, which was taken within the framework of a decision that all Canadian aid to the least developed countries was to be made in the future in the form of grants. That decision, which formed part of Canadian aid policy, should not, however, be interpreted to mean generalized debt relief, for such action would misallocate scarce concessional resources.

45. His Government was continuing to study the debt relief requirements of developing countries on a case-by-case basis. It hoped that the Board would find, during the meeting, the basis for a better understanding of the features of the two general categories of debt problems identified in international forums over the last two years. Canada would welcome any improvement in the operations of the creditor clubs or consortium arrangements currently dealing with indebtedness, but it agreed with those countries which believed that the establishment of automatic provisions did not constitute a step forward.

46. In substance, Canada felt that any problem of indebtedness should be considered in the context of an overall balance-of-payments situation that was governed by a number of factors, of which debt service was but one. In addition, it recognized that the deficit position of the poorest developing countries was closely tied to the level of external financial flows - both commercial and concessional - and that any disruption in those flows should be kept to a minimum. Finally, in view of its own experience, Canada considered that the achievement of economic goals could not be dissociated from the question of the management, by the borrowing country itself, of its external debt.

47. Canada, although a developed country, was still largely dependent on external financing and thus shared many of the problems of the developing countries. It was committed to the search for solutions to debt problems, which, if unresolved, would further weaken economic prospects and limit the future development possibilities of all. All Governments shared a very heavy responsibility to contribute to the promotion of confidence in the global economic community and the task of the meeting was to ensure a rapprochement of differing views and seek realistic solutions to the indebtedness problem.

The meeting rose at 4.10 p.m.